

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Southwest Barry County Sewer and Water Authority</u>	County Barry
Audit Date March 31, 2006	Opinion Date April 26, 2006	Date Accountant Report Submitted To State: June 14, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 750 Trade Centre Way, Suite 300	City Portage	State MI	ZIP 49002-0483
Accountant Signature 			

Southwest Barry County Sewer and Water Authority

Financial Report
March 31, 2006

Southwest Barry County Sewer and Water Authority

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Independent Auditor's Report

The Board of Directors
Southwest Barry County Sewer
and Water Authority
Delton, Michigan

We have audited the accompanying basic financial statements of Southwest Barry County Sewer and Water Authority as of March 31, 2006 and 2005 and for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Southwest Barry County Sewer and Water Authority at March 31, 2006 and 2005 and the changes in its financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Southwest Barry County Sewer and Water Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

April 26, 2006

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Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis

About the Authority

Southwest Barry County Sewer and Water Authority provides the townships of Paireville, Barry, Hope, and Johnstown with sewage and disposal services. The Authority also operates and manages a public water system for the unincorporated Village of Delton. The Authority was incorporated in May 1991. The Authority is governed by a board composed of board members from each constituent township.

Condensed Financial Information

The following table represents condensed information about the Authority's financial position for the past two fiscal years.

	March 31	
	2006	2005
Assets		
Current assets	\$ 939,748	\$ 972,050
Restricted assets for debt services	2,830,295	3,172,881
Other assets	287,066	309,986
Capital assets	7,394,702	7,973,250
Total assets	<u><u>\$ 11,451,811</u></u>	<u><u>\$ 12,428,167</u></u>
Liabilities and Net Assets		
Current liabilities	\$ 865,272	\$ 908,031
Long-term debt	3,863,971	4,628,713
Net assets	6,722,568	6,891,423
Total liabilities and net assets	<u><u>\$ 11,451,811</u></u>	<u><u>\$ 12,428,167</u></u>

Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis (Continued)

Revenues and Expenses

The Authority's financial position has improved significantly, at a quickening pace, over the last two years. Net assets decreased slightly for the 2006 year by \$168,855, but this included \$679,651 of depreciation. Without depreciation, the Authority would have experienced a net gain of \$510,796, which is an increase of 330 percent over the previous year.

The following table shows the changes in net assets during the years ended March 31, 2006 and 2005:

	Year Ended March 31	
	2006	2005
Operating revenue	\$ 698,312	\$ 591,034
Operating expenses before depreciation	<u>494,260</u>	<u>515,406</u>
Net operating income before depreciation	204,052	75,628
Depreciation	<u>679,651</u>	<u>668,869</u>
Net loss from operations	(475,599)	(593,241)
Nonoperating revenues	<u>306,744</u>	<u>78,909</u>
Net loss	<u><u>\$ (168,855)</u></u>	<u><u>\$ (514,332)</u></u>

It appears that the turnaround of the Authority's financial position began approximately two and one-half years ago by refunding of the Authority's primary bond. This action reduces total debt service payments over the next six years beginning in 2006 by approximately \$525,000. Then the Authority hired an administrator in January 2005, which added significantly to the operations of the system by adding another layer of internal controls, by improving communication between operations and the governing board, and by dedicating a new employee to work on long-range planning and goals.

The Authority continues to make significant investments in capital improvements. In previous years, the Authority purchased a pumper truck, a service truck, and a John Deere tractor. With this equipment, plus the use of the Authority's own personnel, a contract to pump the Authority's tanks was no longer needed. Cost savings continue to be realized from those purchases.

Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis (Continued)

The Authority's revenue has been significantly increased by the implementation in 2005 of a \$5 per month increase in the user charge, which continues to provide additional revenue that is dedicated to the debt retirement fund. The acceptance of septage from tanker trucks at the rate of 5 cents per gallon has generated approximately \$103,000 of revenue for the Authority, which has also been dedicated for debt retirement. The purchase of a flow meter coupled with obtaining permits from the MDEQ and having this program supervised by our own employees, has created a septage receiving program that is an important new source of revenue that did not exist prior to 2005. By having the Authority's administrator draft a septage ordinance, which was then adopted by the County of Barry, to prohibit the spreading of septage on any field or waterway in Barry County and instructing that all said septage must now go to a septage receiving facility in Barry County, (such as the SWBCSWA) helps insure that this important source of revenue is protected in the future.

The other major source of revenue for the Authority comes from increased hookups to the sewer system. In 2006, the Authority authorized 20 new hook-ups. This is the highest number of hook-ups experienced by the Authority since the mandatory hook-ups from the Fair Lake special assessments, which were completed in 1998. Disregarding special assessment hook-ups, this is the largest number of hook-ups ever experienced by the Authority in a single fiscal year.

This year, the Authority also changed its governing ordinance, which was ratified by all four township boards, to increase the distance for a mandatory hook-up from the sewer line from 200' to 350' in all areas except those which are zoned agricultural or agricultural/residential. This has already had an effect on gaining additional hook-up fees for the Authority that would not have been realized previously.

Perhaps the Authority's greatest achievement for the year has been receiving a new five-year permit from the Michigan Department of Environmental Quality to operate the treatment facility. The Authority had been operating without a permit for nearly eight years, having missed the renewal deadline. The Authority then had to start from scratch in having to meet new discharge regulations. Negotiations with the MDEQ in setting obtainable discharge limits for sodium chloride and other compounds were very fruitful. It no longer appears that the Authority will need to operate its boiler system on a regular basis to heat affluent during the winter months. This ruling by the MDEQ regarding the operation of this boiler will save the Authority approximately \$14,000 per year in gas costs.

Since obtaining the new five-year operation permit, the Authority has experienced significant decreases in attorney and engineering costs. Some of this decrease in costs may also be attributable to the Authority's decision to hire an administrator who is also a practicing attorney. The policy of having a single person being responsible for communications between the Authority's attorneys, engineers, and the board may have also reduced billable hours to the Authority by eliminating duplication of legal and engineering analysis.

Southwest Barry County Sewer and Water Authority

Management's Discussion and Analysis (Continued)

All debt service payments were made by the Authority in a timely manner and debt service revenue slightly exceeded the debt service revenue that was projected for the year.

Nonoperating Revenue and Expenses

Due to a more aggressive investment policy (i.e., the administrator and treasurer have been given additional flexibility to place larger amounts of monies in higher interest-bearing accounts), coupled with a decrease in banking surcharges (due to searching out better performing account types), the Authority saw significant increases in investment income, up nearly 60 percent from the previous year.

Capital Improvements

This year, the Authority purchased a large Case tractor, bio-solid injection equipment, a boring machine for placing sewer pipe under roadways, etc., and two new computers for the main office and made the majority of the payments for the construction of a new 60'x80'x14' pole barn, located at the treatment plant facility. By using the Case tractor and injection equipment along with the Authority's own personnel, the Authority was able to cancel another outsourcing contract to have bio-solids injected. The Authority has also been successful in receiving additional application permits for injecting bio-solids on adjoining farmland, thus nearly eliminating any transportation costs. The purchase of the boring machine and the use of the Authority's own employees have also significantly reduced the costs of laying new sewer line under roads, driveways, and other obstacles. The purchase of the new pole barn will help protect the Authority's equipment assets, and will provide the Authority with the flexibility in storage capacity to undertake new projects in the future.

Future Projections

All in all, the Authority continues to see its financial position improve dramatically. By increasing revenues, decreasing costs, having greater internal controls, doing more work in-house, and having a sharper, clearer vision for the future, the Authority has strengthened both its financial and operational positions and has put itself on solid footing to meet any new additional challenges in the coming years.

Contacting the Authority's Management

This management's discussion and analysis provides an overview of the current and prospective financial condition of the Authority's operations and physical assets. If there are questions concerning this report or if additional information is desired, please contact the Authority at 269-623-3401.

Southwest Barry County Sewer and Water Authority

	March 31	
	2006	2005
Assets		
Current Assets		
Cash and investments (Note 2)	\$ 368,176	\$ 383,688
Accounts receivable	118,210	93,188
Prepays	<u>453,362</u>	<u>495,174</u>
Total current assets	939,748	972,050
Restricted Assets for Debt Services		
Cash and investments (Note 2)	1,146,371	1,109,861
Special assessments receivables from townships (Note 3)	1,527,292	1,903,016
Contract connection fee receivable (Note 5)	<u>156,632</u>	<u>160,004</u>
Total restricted assets for debt services	2,830,295	3,172,881
Other Assets - Bond issue costs - Net of amortization	287,066	309,986
Capital Assets (Note 4)	<u>7,394,702</u>	<u>7,973,250</u>
Total assets	<u><u>\$ 11,451,811</u></u>	<u><u>\$ 12,428,167</u></u>

Statement of Net Assets

	March 31	
	2006	2005
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 12,897	\$ 19,860
Accrued expenses and other liabilities	77,375	78,171
Current portion of long-term debt (Note 6)	<u>775,000</u>	<u>810,000</u>
Total current liabilities	865,272	908,031
Long-term Debt (Note 6)	<u>3,863,971</u>	<u>4,628,713</u>
Total liabilities	4,729,243	5,536,744
Net Assets		
Investment in capital assets - Net of related debt	2,755,731	2,534,537
Restricted net assets	2,830,295	3,172,881
Unrestricted	<u>1,136,542</u>	<u>1,184,005</u>
Total net assets	<u>6,722,568</u>	<u>6,891,423</u>
Total liabilities and net assets	<u>\$ 11,451,811</u>	<u>\$ 12,428,167</u>

Southwest Barry County Sewer and Water Authority

Statement of Activities

	Year Ended March 31	
	2006	2005
Operating Revenue		
Sewer user fees	\$ 635,113	\$ 537,081
Water user fees	51,489	48,411
Miscellaneous	11,710	5,542
Total operating revenue	698,312	591,034
Operating Expenses Before Depreciation		
Cost of sewer	450,935	470,529
Cost of water	43,325	44,877
Total operating expense	494,260	515,406
Net Operating Income Before Depreciation	204,052	75,628
Depreciation	679,651	668,869
Net Loss from Operations	(475,599)	(593,241)
Nonoperating Revenues (Expenses)		
Connection fees	110,491	115,666
Debt service fees	288,008	186,766
Investment income	34,831	20,799
Interest income on special assessments	95,351	117,326
Interest expense on bonds	(146,950)	(289,883)
Amortization on bond costs	(22,920)	(22,920)
Amortization of legal costs	(41,809)	(41,809)
Amortization of bond discount	(10,258)	(7,036)
Total nonoperating revenues	306,744	78,909
Net Loss	(168,855)	(514,332)
Net Assets - Beginning of the year	6,891,423	7,405,755
Net Assets - End of the year	<u><u>\$ 6,722,568</u></u>	<u><u>\$ 6,891,423</u></u>

Southwest Barry County Sewer and Water Authority

Statement of Cash Flows

	March 31	
	2006	2005
Cash Flows from Operating Activities		
Receipts from customers	\$ 673,290	\$ 589,610
Payments to suppliers	(194,070)	(268,718)
Payments to employees	(307,949)	(273,442)
Net cash provided by operating activities	171,271	47,450
Cash Flows from Capital and Related Financing Activities		
Collections on special assessments	375,724	411,515
Interest earned on special assessments	95,351	117,326
Collections on connection fees	113,866	126,642
Debt service fees collected	288,008	186,766
Purchase of capital assets	(101,103)	(122,104)
Proceeds from advance refunding	-	4,665,000
Principal and interest paid on capital debt	(956,950)	(5,946,611)
Net cash used in capital and related financing activities	(185,104)	(561,466)
Cash Flows from Investing Activities - Interest received on investments	34,831	20,799
Net Increase (Decrease) in Cash and Cash Equivalents	20,998	(493,217)
Cash and Cash Equivalents - Beginning of year	1,493,549	1,986,766
Cash and Cash Equivalents - End of year	<u>\$ 1,514,547</u>	<u>\$ 1,493,549</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 368,176	\$ 383,688
Restricted cash and cash equivalents	1,146,371	1,109,861
Total cash and cash equivalents	<u>\$ 1,514,547</u>	<u>\$ 1,493,549</u>

There were no noncash transactions during the year ended March 31, 2006.

Southwest Barry County Sewer and Water Authority

Statement of Cash Flows (Continued)

	March 31	
	2006	2005
Reconciliation of Net Loss from Operations to Net Cash from Operating Activities		
Net loss from operations	\$ (475,599)	\$ (593,241)
Adjustments to reconcile net loss from operations to net cash from operating activities:		
Depreciation and amortization	679,651	668,869
Changes in assets and liabilities:		
Receivables	(25,022)	(1,424)
Inventory	-	28,671
Accounts payable	(6,963)	8,327
Accrued and other liabilities	(796)	(63,752)
Net cash provided by operating activities	<u>\$ 171,271</u>	<u>\$ 47,450</u>

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies

Southwest Barry County Sewer and Water Authority (the "Authority") was established by the townships of Prairieville, Barry, Hope, and Johnstown. The Authority was incorporated in May 1991, under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of a board member from each of the constituent townships. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185 Public Acts of 1957, as amended, for the benefit of constituent municipalities. The Authority is under a five-year permit from the Michigan Department of Environmental Quality to operate the treatment facility.

The accounting policies of Southwest Barry County Sewer and Water Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Measurement Focus and Basis of Accounting - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of activities distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's principal operating revenue relates to charges for sewage collection and water services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fund Accounting - The accounts of Southwest Barry County Sewer and Water Authority are organized as an Enterprise Fund, which is used to account for its operations as a provider of sewer and water services. These services are financed primarily through user charges.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are stated at invoice cost. All delinquent accounts receivable are sent to the County for collection through the property tax rolls.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Property, plant, and equipment are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives, which range from 5 to 40 years.

Bond Issuance Costs and Discounts - Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the report amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. The Authority has designated one bank for the deposit of its funds, excluding those funds held by the County.

The Authority's investment policy is in accordance with statutory authority.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

The Authority's deposits and investments at March 31, 2006 and 2005 are included on the statement of net assets under the following classifications:

	2006		2005	
	Cash and Cash Equivalents	Restricted Assets for Debt Service	Cash and Cash Equivalents	Restricted Assets for Debt Service
Deposits:				
County treasurer	\$ -	\$ 845,887	\$ -	\$ 887,867
Bank	368,026	300,484	383,538	221,994
Petty cash	150	-	150	-
Total	<u>\$ 368,176</u>	<u>\$ 1,146,371</u>	<u>\$ 383,688</u>	<u>\$ 1,109,861</u>

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had approximately \$507,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Amounts Held by the County - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the custodial credit risk as these funds are only a portion of the entire County deposits.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2006 and 2005

Note 3 - Contracts with Townships

Contracts with townships represent the remaining amount due to the Authority from the original special assessment roll in 1990, and the Fair Lake Project special assessment roll in 1998. Both are expected to be collected over a 20-year period. Details of the township contracts are as follows:

	Balance April 1, 2005	Principal Collected	Balance March 31, 2006
Original assessment:			
Barry Township	\$ 233,596	\$ (48,978)	\$ 184,618
Hope Township	285,224	(61,253)	223,971
Johnstown Township	280,028	(65,886)	214,142
Prairieville Township	<u>615,176</u>	<u>(140,624)</u>	<u>474,552</u>
Total original assessment	1,414,024	(316,741)	1,097,283
Fair Lake project - Barry Township	<u>488,993</u>	<u>(58,984)</u>	<u>430,009</u>
Total contracts due from townships	<u>\$ 1,903,017</u>	<u>\$ (375,725)</u>	<u>\$ 1,527,292</u>

Total interest collected was \$95,351 and \$117,326 in 2006 and 2005, respectively.

Note 4 - Capital Assets

Cost of property, plant, and equipment and depreciable lives are summarized as follows:

	Balance April 1, 2005	Additions	Balance March 31, 2006
Capital assets not being depreciated - Land and easements	\$ 486,830	\$ -	\$ 486,830
Capital assets being depreciated:			
Treatment plant	2,883,922	26,903	2,910,825
Wells, mains, and equipment	9,817,305	39,716	9,857,021
Construction in progress	<u>-</u>	<u>34,484</u>	<u>34,484</u>
Subtotal	12,701,227	101,103	12,802,330
Less accumulated depreciation	<u>5,214,807</u>	<u>679,651</u>	<u>5,894,458</u>
Net capital assets being depreciated	<u>7,486,420</u>	<u>(578,548)</u>	<u>6,907,872</u>
Net capital assets	<u>\$ 7,973,250</u>	<u>\$ (578,548)</u>	<u>\$ 7,394,702</u>

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2006 and 2005

Note 4 - Capital Assets (Continued)

	Balance April 1, 2004	Additions	Balance March 31, 2005
Capital assets not being depreciated - Land and easements	\$ 486,830	\$ -	\$ 486,830
Capital assets being depreciated:			
Treatment plant	2,863,571	20,351	2,883,922
Wells, mains and equipment	9,715,551	101,754	9,817,305
Subtotal	12,579,122	122,105	12,701,227
Less accumulated depreciation	4,545,937	668,870	5,214,807
Net capital assets being depreciated	8,033,185	(546,765)	7,486,420
Net capital assets	\$ 8,520,015	\$ (546,765)	\$ 7,973,250

Depreciation expense was \$679,651 and \$668,869 for the years ended March 31, 2006 and 2005, respectively.

Note 5 - Contract Connection Fees

Contract connection fees represent the balance due from customers who have elected to hook up to the system, but were not on the original assessment roll with any of the townships. The Authority is collecting the receivables directly from the customers.

Balance April 1, 2005	New Hook-ups	Amounts Paid	Balance March 31, 2006
\$ 160,004	\$ 105,250	\$ (108,622)	\$ 156,632

Note 6 - Long-term Debt

The Authority issues bonds to provide for the cost of constructing sewer and water lines. General obligation bonds are direct obligations and pledge the full faith and credit of the participating townships. Installment purchase agreements are also general obligations of the Authority.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2006 and 2005

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows for the year ended March 31, 2006:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Southwest Barry County Sewage						
Disposal refunding bonds, series 2004	2.05%-3.15%		\$ 4,665,000	\$ (750,000)	\$ 3,915,000	\$ 715,000
Amounts of issue:	\$4,665,000	\$750,000- \$850,000				
Maturing through:	2010					
Fair Lake Extension Sewage						
Disposal bonds	4.40%-4.90%					
Amounts of issue:	\$1,110,000	\$60,000- \$65,000	825,000	(60,000)	765,000	60,000
Maturing through:	2017					
Subtotal			5,490,000	(810,000)	4,680,000	775,000
Less deferred amount on refunding			(51,287)	10,258	(41,029)	-
Total long-term debt			<u>\$ 5,438,713</u>	<u>\$ (799,742)</u>	<u>\$ 4,638,971</u>	<u>\$ 775,000</u>

Debt Service Requirements - The annual requirements to amortize all long-term debt outstanding as of March 31, 2006, including both principal and interest, are as follows:

	Principal	Interest	Total
2007	\$ 775,000	\$ 130,509	\$ 905,509
2008	810,000	111,713	921,713
2009	860,000	89,615	949,615
2010	865,000	64,586	929,586
2011	915,000	36,642	951,642
2012-2016	325,000	70,558	395,558
2017-2021	130,000	6,369	136,369
Total			<u>\$ 5,189,992</u>

Interest - Total interest incurred for the Authority was \$146,950 and \$289,883 for the years ended March 31, 2006 and 2005, respectively.

Southwest Barry County Sewer and Water Authority

Notes to Financial Statements March 31, 2006 and 2005

Note 6 - Long-term Debt (Continued)

Advance and Current Refundings - During the year ended March 31, 2005, the Authority issued \$4.6 million in general obligation bonds with an average interest rate of 2.46 percent. The proceeds of these bonds were used to advance refund \$5.6 million of outstanding Southwest Barry County Sewage Disposal System Bonds with an average interest rate of 4.94 percent. The net proceeds of \$4,598,500 million (after payment of \$66,500 in underwriting fees, insurance, and other issuance costs) plus an additional \$300,000 of Authority monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Authority's statement of net assets. The advance refunding reduced total debt service payments over the next six years by approximately \$524,730, which represents an economic gain of approximately \$195,400.

Note 7 - Defined Contribution Pension Plan

The authority provides pension benefits to all employees through a defined contribution plan by adopting the MTA Master Compensation plan for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Authority contributes 8 percent of base compensation for participating employees, except for the manager, for whom 11 percent is contributed. Employees are able to defer compensation into the plan up to the limits governing IRS Section 457 retirement plans. Total contributions to the plan for the years ended March 31, 2006 and 2005 were \$11,955 and \$11,389, respectively.

Note 8 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits for the employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.